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THE IMPORTANCE OF ACTIVITY-BASED COSTING METHOD (ABC) IN ROMANIA'S BUSINESS ENVIRONMENT CHANGES

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Abstract

The purpose of this paper is to present the importance of Activity-Based Costing method (ABC) in Romania's business environment changes. We analyzed the possibilities to adapt to a modern management accounting method and managerial accounting organization assumptions of the ABC (Activity-Based Costing) method in Romanian enterprises. The article ends with the authors' conclusions about the changes of the ABC method in the Romanian's business environment.

Key words: *Activity-Based Costing, management accounting, entity, implementation, business environment.*

JEL Code: M41, M21.

Introduction

The article refers to the importance of changes brought by the ABC method in the Romanian business environment. The purpose of this article is to highlight the benefits of the ABC method. Starting from this, the authors intended to meet the information needs and analysis needs of traditional management accounting methods applied in Romania in order to achieve higher performance in enterprises. Unlike studies performed so far, the authors attempt to examine the assumptions of organizing the managerial accounting through the ABC method.

The analysis is focused on a survey done in enterprises applying the ABC method in Romania and the conclusions of the USA specialists, thus demonstrating the possibility to adapt this method to the data requirements of enterprise managers and the impact they have upon the Romanian business environment. The results of future investigations will contribute to enlarging the area of analysis and research of the actual problems that the business environment in Romania faces; we are hereby only trying to pave the way for better publicity and to create a flexible framework for implementing and adapting to new requirements imposed by the international business environment.

The impact of traditional management accounting methods on the business environment in Romania

Permanent increase of production quality and reduction of cost/completion time of products are the two essential objectives of entities in today's business environment required to handle international and even domestic competition. Achieving these objectives requires, primarily, adjustment and improvement of production processes and using new methods of organizing production, to cover customers' requirements, while avoiding the formation of stocks.

Making the first essential objective of an entity in the current business environment requires continuous reduction and strict emphasis losses due to obtaining final scrap and waste generated by reprocessing them, so that they are removed from the obtained finished product costs, the corresponding terms quality. It is also necessary emphasizing and tracking the quality of costs, respective those generated by activities aimed at ensuring growth and quality of products.

For over 75 years, most entities in Romania have used and still use standard cost systems to determine their financial situations, but also for management purposes. The standard cost system has some advantages to the purposes of financial statements (e.g., simplicity and consistency). Traditional cost accounting systems focus, in particular, on issues related to determining pre-calculated or actual costs related to stages of production and delivery and do not follow strictly the total costs of products on their stage of development. In this way may be mentioned: the ordering method, phased method, the global method and other methods of cost calculation, characterized by rigid mass production and manufacturing technologies. Traditional cost system worked well until the business environment has changed. About 20 years ago, most manufacturing companies have started to adopt changes in their operations, which were not in accordance with traditional cost accounting methods.

The analysis of adaptation possibilities to a modern management accounting method in Romania

The cost system plays an important role in the making decision process by managers in any entity. It is therefore important to consider several factors before choosing or changing the management accounting and cost calculation method of a specific entity. It is therefore important to consider several factors before choosing or changing the method of management accounting and costing of a specific entity. Currently, globally some entities thrive by implementing strategies that create competitive advantages. The Romanian entities do not seem to keep step with the growing number of modern management accounting and cost calculation methods, appeared, presented and discussed after 1990.

The necessity for exploring possibilities of adapting the Activity-Base Costing (ABC) method into the Romanian's entities is based on four main causes: failure to deepen modern cost accounting systems, deficiencies of classical or contemporary cost accounting systems, diversification of information requests for entities' management and producing changes in the market strategic position of entities.

The first cause is due to poor information in management accounting. The fear of trying new methods still exists in Romania, and this makes us think that we really still do not want to practice performant methods to favor entities in any sector or is just our supposition? This aspect can be resolved relatively easily by organizing and participating in the practice of information courses at institutions or economic agents by specialists in the management accounting field, through publication of specialized books, materials via internet or e-book, through conferences and scientific symposia.

The second cause refers to the indirect costs that are distributed over the products through non-specific reference sizes relative to their degree of incurring. In many entities, as well as in other branches of the economy, the indirect cost allocation process is performed by using supplementation (classical form). This allocation of indirect costs does not comply with their causation principles and may lead to erroneous policy decisions, due to the use of arbitrary allocation keys.

The third cause of adaptation of the ABC method, such as, diversifying demand for management information covers all value creating activities (production sectors, support activities etc.). Based on this aspect, the decisions aimed at inter alia: providing complex information regarding the costs of all calculation objects, the determination of costs for

specific orders, the determination of optimal number of product variants, and the reduction in size batches, ensuring economic efficiency control in the indirect costs sectors.

The fourth cause of adaptation of the ABC method aimed at the company's strategic position. With the development of IT (information technology), the company environment has changed radically and its strategic position. After the introduction and use of CIM systems (Computer Integrated Manufacturing), important changes have occurred in all areas and sectors of an entity. Due to fierce market competition, there is a tendency of entities for reduction of costs, improvement of products quality and development of new products. All this results in further shortening the life span of products.

Entities from all Romanian economic sectors and elsewhere, should try to satisfy customers requests who are growing and diversifying, because many markets have become demand and control markets, and thus will lead to a broadening exponential models and assortments of products and/or offered by both sides.

The premises of organizing management accounting through (ABC Activity-Based Costing) method in the Romanian entities

In order to guarantee efficient management accounting organization through the ABC method by Romanian entities it had considering the following premises:

Adopting the Activity-Based Costing (ABC) method. In choosing of the ABC method were considered the organizing factors of management accounting, such as: entity's size, technology usage, number of manufactured products, the significance of indirect costs and competition. Implementation of the ABC method in an entity is done in accordance with certain requirements related to the above mentioned factors and requires:

- Establishing processes, activities and operations, according to the specific transversal organization of the entity.
- Establishing of cost drivers related to cost calculation objects, specific of entity to which it belongs. With ABC *cost drivers* (1) are units that are used to causally assign and trace indirect and shared resource expenses related to activities based on the consumption that cost objects place demands on resources.
- Adoption and improvement documents system according to the specific of the ABC method. Within that will include registration documents that concern the production, costs and deviations from pre-calculated costs, analysis and monitoring and measuring performances instruments.

Establishing the time period for carrying out economic and financial operations and costs determination. For not disrupting the costs during the exercise is preserved in the chosen reporting period of pre-determined or post-calculation. Thus, according to the specific entity branch, the chosen reporting period relates to the month or semester, but with some exceptions, and annually. In the case of regular reports (monthly), the management and operational services of the entity must take into consideration some aspects that concern:

- Technical and personnel resources allocated to achieve these activities. If we are considering the specifics of the ABC method, this is not an impediment to the entity's functional services and human resources are clearly defined;
- Determination the correctness of production and obtained costs production. The ABC method is noted in particular through this aspect of the accuracy of determining costs;
- Organization of operatively and post-operatively control. The possibilities offered by the ABC method in this way come to supplement the previous mentioned issues;
- Informing the various categories of users of the entity. The ABC method offers a huge amount of information necessary for all categories of users (management, operational services, other services) being used for analysis and reporting.

Choosing the responsible staff for execution of management accounting specific works. In the case of the ABC method, each functional service or department has its representative. Development works of pre-determination and post-calculation, is realizing at the functional level and thus the responsibility for establishing and assuming responsibility in this case is just for the department. All budgets are then collected by the entity's accounting department and subject to approval by management.

The time planning of specific management accounting works. This aspect is closely linked to previous and the visibility how the degree of fulfillment of the undertaken tasks by departments is done using graphs or tabular statements, they may take different forms, depending on the entity's requirements.

Choosing the processing way of obtained management accounting information. Because of the ABC method requires a large amount of data entry and processing, their processing is necessary with the help of powerful software that runs on platforms equipped with modern performant computers. Here comes the advantage of data processing network, intranet or internet.

Activity-Based Costing (ABC) method and the changes in the Romanian business environment

ABC is a cost calculation technique that allows an entity to determine actual costs associated with each product manufactured, work executed or service provided. ABC method delineates the activities of entities in: *value activities* (2) and *non-value activities* (3). ABC method helps an entity in finding opportunities to streamline or reduce or eliminate costs throughout the activity, where it is found that it provides no value.

The ABC method allows managers to see if resources are used efficiently and also the activities that contribute to creating value product fabricated, work done or service rendered. One of the most important contributions of the ABC method is the fact that remedies the approaches weaknesses of traditional costs calculation production. Also, ABC method presents other advantages such as:

- Obtaining more real production costs than those obtained for traditional management accounting methods;
- Focuses on the real nature of the behavior of costs, thus helping to identify non-value activities;
- Uses multiple cost drivers that highlight the direct cause-effect relationship between the allocated costs and allocation bases used;
- Provides flexibility in allocating costs on manufactured products, work performed or services rendered on different strategic segments of customers;
- The type used to aggregate support activities by the main activities;
- Uses dashboards compiled on the basis of pilot indicators carefully selected, thus providing reliable long-term strategic decisions relevant on long-term;
- Offers the possibility of adapting the Romanian General Accounting Plan to the specificity of the ABC method.

Data from our studies reveal that Activity-Based Costing method is not indeed fully appreciated by the most companies in Romania. Despite the inherent strengths of the ABC method, very few companies have chosen to adopt it in their business operations. Our studies have found lack of knowledge of many employees from different companies questioned regarding the activity-based costing engineering (technique). We can enumerate some of the reasons for low adoption of the ABC method in Romania: the lack of basic knowledge of employees about the specifics of the ABC method, the resistance of employees, key organizational changes to implement the ABC method.

Some respondents identified as the source of the failure of the ABC method, the complexity of the steps which it involves, as the ABC method requires detailed records of costs associated with the production of goods and services compared to traditional methods. Other respondents believe that the ABC method will be adopted more than those companies in which they were covered well by their accountants.

Companies from Romania, who initially adopted the ABC method and finally gave it up and those companies that refuse to adopt its techniques only see the high cost of its implementation. General or long-term success of an ABC system is not only the achievement of architectural elegance and used software, but proper implementation and maintenance of its proper operation. It is very important that the Romanian companies to review their current cost systems in use to ensure that they adequately respond to various changes in competition and technological innovations.

Conclusions

From the above, it follows that the emergence of new production technologies and new methods of organization and management requires constant reconsideration of existing information systems, within which managerial accounting occupies an important place. In this context, Activity-Based Costing can be a way to improve the profitability and cost management, more rigorous determination of the cost of their products in every stage of their development. In the last decade, many entities have tried to implement the ABC system, not only in Romania but also in many other countries. There is an evidence of enlargement, but many of these entities are faced with problems of implementation of the ABC method, and in extreme registers not successful with this method. Most of the entities that adopt ABC method are treating only as a technical innovation, and not as an administrative innovation. In adopting the ABC system, are very important and valuable treatment of the technical aspects of design, so as to ensure that proper cost information can be provided to support management decisions and actions of an entity.

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- (2) Those tasks assumed by the entity for which customers are willing to pay for this service.
- (3) Those activities that create waste, resulting in delay or add costs to products for which customers are willing to pay.

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